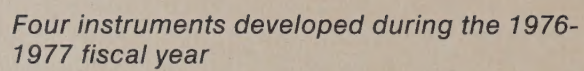


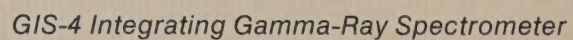
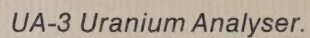
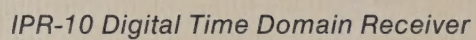
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SCINTREX

Annual Report 1977



GAD-6 Four-channel Gamma-Ray Spectrometer



Annual Report 1977

Directors

Harold O. Seigel
Alfred J. Shaul
William L. Seigel
Gerald Stork
Jon G. Baird
Franc. R. Joubin
Harold I. Schiff

Officers

Harold O. Seigel, Ph.D., P.Eng.,
President
Gerald Stork, C.A., P.Eng.
Vice President, Finance and Administration
Jon G. Baird, B.Sc., P.Eng.,
*Vice President and General Manager,
Earth Science Division*
Valentine Burda, M.Sc.,
Vice President, Engineering
Alfred J. Shaul, Q.C.,
Secretary
Anthony W. Howland-Rose
Vice President

Solicitor

Alfred J. Shaul, Q.C.

Bankers


Bank of Nova Scotia

Auditors

Laventhol & Horwath

Transfer Agent and Registrar

Guaranty Trust Company of Canada



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Report to the Shareholders



Your directors are pleased to report a significant improvement in sales and profitability of Scintrex in the fiscal year ended January 31, 1977. A strong uptrend in geophysical instrument deliveries, coupled with a moderate increase in geophysical survey activity resulted in a 27% growth in revenue, bringing consolidated sales to \$4,938,000 for the year.

Much of the improvement in the earth science field is directly attributable to the worldwide search for uranium.

Deliveries of contract instrumentation, primarily for CANDU-type reactors, remained at the level of the previous year but constituted a smaller percentage of sales.

Financial

The increase in sales is particularly significant because it arises entirely from the technical mainstream of the company's activities, namely earth sciences. Pre-tax income for the year rose to \$219,000 versus \$97,000 for the previous year. Net income after taxes and after utilizing tax losses carried forward, amounted to \$202,000 and \$80,000 respectively.

The company's working capital position continued to improve and, at fiscal year end, stood at \$1,025,000, showing an increase of \$276,000, despite substantial additions to capital assets during the year.

Scintrex' bank indebtedness fell to \$132,000 at the year end from \$465,000 the year before. The present ratio of current assets to current liabilities is 2.0:1 against 1.6:1 a year ago. All in all, the company's financial position is healthy and showing much improvement over previous years.

This is not to say that management is content with the current level of profitability. As a high technology company, Scintrex should be able to produce a higher return on sales. Among the factors which have kept profitability down last year were increased Research and Development expenditures (after grants), up 39% over the previous year; inflationary increases in the cost of labour and material; and losses in the contract instrumentation area due to underestimating costs on early tenders, only now in production.

Earth Science Instrumentation

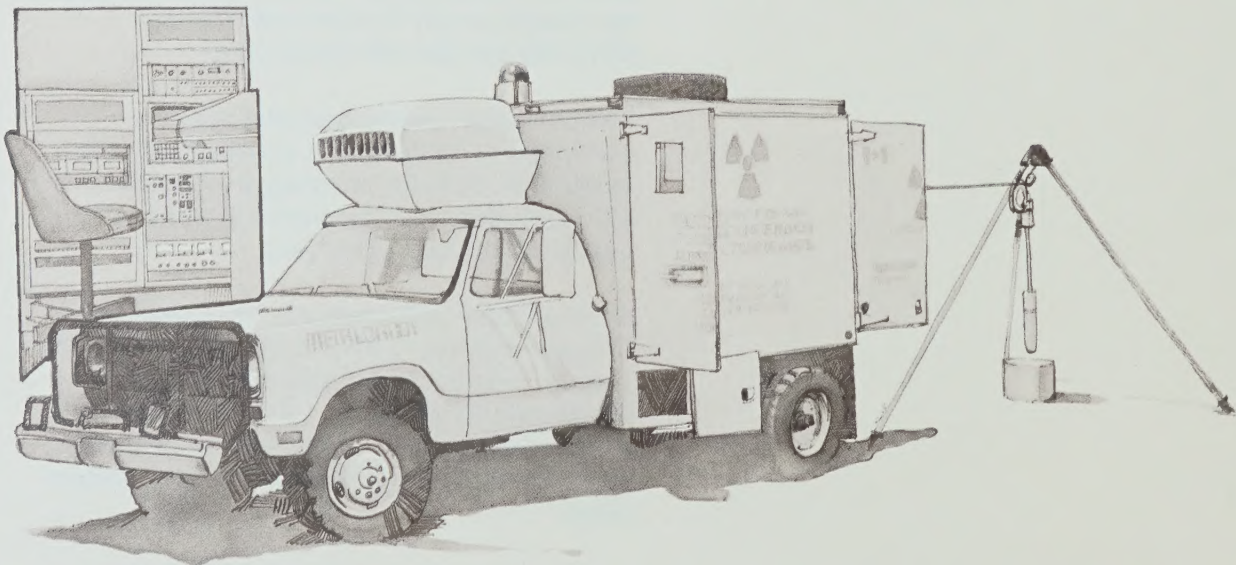
Deliveries of earth science instrumentation increased by 40% over the previous year. A large proportion of this increase occurred with regard to instruments for uranium exploration.

An indication of the growing importance of the export market for exploration instrumentation is the fact that 75% of the sales were to customers outside of Canada.

Government agencies in many countries form an increasing proportion of your company's customers. For example, one order from the People's Republic of China received in November, 1976 totalled \$375,000.

Sales to the United States were strong and included a number of advanced radiometric instruments for the Energy Research and Development Agency (ERDA) and for the LKB Corporation, a major U.S. aerial survey contractor to ERDA.

Scintrex' survey activity during the year showed a moderately higher volume in all areas of operations. The intensified, worldwide search for uranium has provided broad impetus to exploration activity. During the fiscal year the service division carried out airborne and/or ground surveys in Canada, U.S.A., Mexico, Brazil, Australia, New Guinea and South Africa. Towards the close of the year, a decision was made to dispose of the company's DHC-3 (single engine) Otter aircraft used for multi-



Metalog Truck — insert shows Mini-Computer.

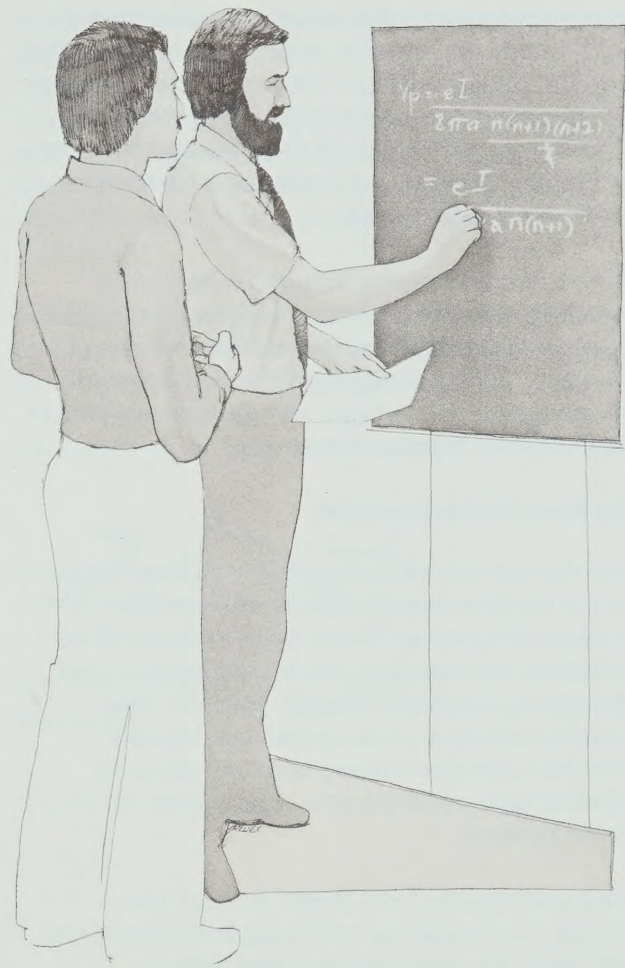
system low altitude surveys. Whereas this system had produced excellent results, from a technical standpoint, it had not proved to be economical in operation, primarily because of the short range of the aircraft. In addition, being a single engine aircraft, it was not highly rated from a safety standpoint. The aircraft was sold prior to the yearend.

A neutron-prompt gamma ray borehole logging system (Metalog) mounted in a truck was shipped by Scintrex to the United Kingdom to carry out an experimental program of logging in the coal fields on behalf of Shell Oil and the British Coal Board. Test results showed that the system can measure the sulphur and ash content of the coal seams with an accuracy adequate for economic evaluation of these seams. It is management's intention to exploit this newly demonstrated potential of the Metalog approach.

Research and Development

Total expenditures on R and D activities during the year increased 28% to \$518,000, in line with the previous year's rate of 10% of sales. Activities were directed mostly towards shorter term projects and aimed at producing improved instrumentation for established mineral exploration markets.

Three new uranium exploration devices were developed during the latter half of the year. These include the GIS-4 ultra-compact, liquid crystal, digital readout, prospecting gamma ray spectrometer; the GAD-6, a radio isotope stabilized version of the successful GAD-4 and probably the world's most advanced and versatile portable, four channel gamma ray spectrometer; and the UA-3 uranium geochemical analyser.



The UA-3 shows promise of radically changing the whole field of uranium geochemistry. It is based on laser induced fluorescence of uranium in an aqueous solution and is designed for operation even in remote base camps. It permits direct measurement of the uranium content of an aqueous solution (for example, natural lake water or an aqueous extract from a digested soil sample) to be made with a sensitivity of better than 0.05 parts per billion in a time of less than one minute per sample. Three prototype instruments of an earlier version of this device were put into use by Scintrex' clients

in the summer of 1976. Improvements, based in part on this experience, have been incorporated into the present design. UA-3 sales have already been made to several clients in the U.S.A. (including ERDA groups), the Geological Survey of Canada and various Canadian and foreign exploration companies.

A new, digital reading induced polarization receiver, the IPR-10, was developed during last year and introduced to the market at the yearend. It is basically, a digital version of the successful IPR-8 design, with several significant instrumental improvements.

Contract Instrumentation

For the last two years Scintrex has been active in the nuclear power instrumentation field. A number of contracts have been completed for tritium-in-air monitors, trip test amplifiers, and thermoluminescent detector plaques. New orders include an auto urinalyser, laundry monitor, portable tritium monitor, reactivity control logic cabinets and logic panels for shut down systems.

Financial results from these projects have varied, due largely to our initial inexperience in this field. It is expected that this activity, however, will make a positive contribution to this year's earnings.

Present Operations

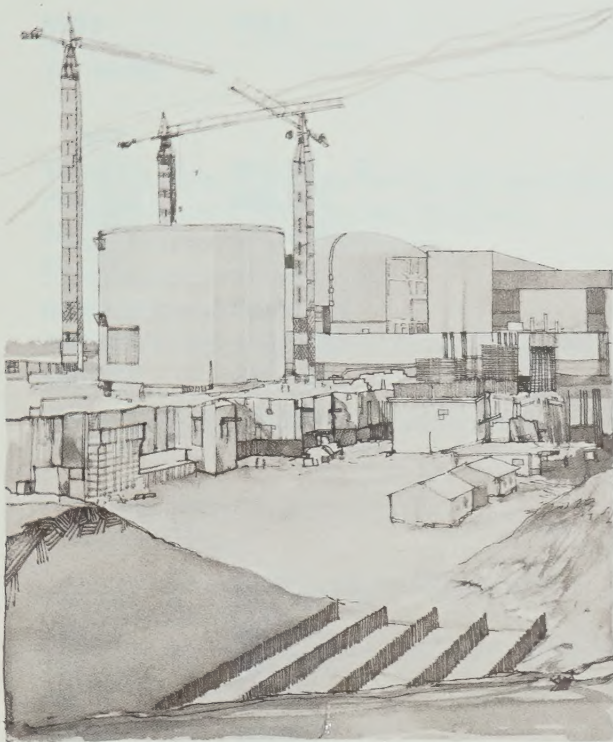
Despite a 40% increase in the rate of instrument production, Scintrex' backlog of orders at the end of May, 1977, stood at more than \$3 million, double that of a year ago. This figure includes two new contracts, concluded in early May, with the China National Machinery Import and Export Corporation, for the supply of airborne and ground geophysical equipment and operator training, totalling \$900,000. The bulk of this backlog is to be delivered in 1977 and the remainder in 1978.

The company continues to expand the production capability of its electronic assembly and machine shop. Additions to production facilities during this year will include a large numerically-controlled machining centre, a wave soldering machine in the electronic assembly and an expansion of the gravimeter manufacturing department.

Scintrex' plant is approaching the limits of its capacity and, pending a decision to add to it, some space has been rented in an adjacent industrial complex.

A moderate volume of geophysical service work is currently under contract in North America and Australia, involving mainly airborne activities.

A joint venture agreement has recently been reached with Kenting Earth Sciences of Ottawa to provide Tridem airborne electromagnetic survey services in North America and overseas. A Tridem system is currently being modified for installation in a Kenting PBY-Canso, twin-engined aircraft. Survey services will be sold by both Scintrex and Kenting. Kenting's PBY-Canso is a long range aircraft, with proven efficiency in conducting low altitude airborne surveys. The new system will combine Tridem's excellent geophysical competence with the efficiency and economy of the Canso as a



Pickering Candu Nuclear Power Plant under construction.

survey vehicle, thus increasing the saleability of the service.

In view of the company's large order backlog and excellent prospects for further orders, your directors look forward to a profitable year, and, hopefully, to a more reasonable return on investment.

I wish to thank all our hard working and creative employees for their loyalty and contribution to the progress of the company.

On behalf of the board of directors,

Harold O. Seigel, Ph.D., P.Eng.
President



Kenting PBY-CANSO with Scintrex' Tridem system.

Consolidated Balance Sheet — January 31

	<u>1977</u>	<u>1976</u> (Note 10)
Assets		
Current:		
Cash	\$ 50,349	\$ 101,562
Accounts receivable	833,699	801,425
Inventories (Note 2)	1,074,278	978,339
Prepaid expenses and sundry assets	52,124	37,143
	<u>2,010,450</u>	<u>1,918,469</u>
Property, plant and equipment (Note 3)	1,073,637	1,156,769
Other (Note 4)	301,080	334,882
	<u>\$3,385,167</u>	<u>\$3,410,120</u>
Liabilities		
Current:		
Bank indebtedness (Note 5)	\$ 131,633	\$ 464,811
Customer deposits	105,840	80,361
Accounts payable and accrued liabilities	719,800	611,991
Income taxes payable	17,451	2,500
Current portion of long-term debt	10,328	9,647
	<u>985,052</u>	<u>1,169,310</u>
Long-term debt (Note 6)	<u>533,601</u>	<u>542,077</u>
Shareholders' Equity		
Capital stock (Note 7)	1,689,204	1,689,204
Retained earnings	214,247	51,484
	<u>1,903,451</u>	<u>1,740,688</u>
Less common stock in treasury, at cost (Note 7)	36,937	41,955
	<u>1,866,514</u>	<u>1,698,733</u>
	<u>\$3,385,167</u>	<u>\$3,410,120</u>

On behalf of the Board:
HAROLD O. SEIGEL, Director
ALFRED J. SHAUL, Director

See accompanying notes.

Consolidated Statement of Income — Year Ended January 31

	<u>1977</u>	<u>1976</u> (Note 10)
Sales	\$4,938,408	\$3,883,001
Cost of sales including selling and administrative expenses	3,926,270	3,043,021
Research and development expenses	518,394	405,132
Depreciation and amortization	308,092	310,815
Interest on long-term debt	54,247	41,360
Other interest	72,222	79,883
Gain on disposal of property and equipment	(73,502)	—
	4,805,723	3,880,211
Less research and development grants	86,378	94,012
	4,719,345	3,786,199
Income before income taxes	219,063	96,802
Income taxes	157,000	103,000
Income (loss) before extraordinary item	62,063	(6,198)
Extraordinary item:		
Income tax reduction arising from utilization of prior years' losses	140,000	100,500
Net income	\$ 202,063	\$ 94,302
Weighted average common shares outstanding	857,765	853,535
Income (loss) per common share (after preference share dividend requirements of \$19,650):		
Income (loss) before extraordinary item	\$0.05	\$(0.04)
Net income	\$0.21	\$0.07

See accompanying notes.

Consolidated Statement of Retained Earnings — Year Ended January 31

	1977	1976
Retained earnings (deficit) beginning of year, as previously reported	\$ 5,818	\$ (35,315)
Adjustment of prior years' depreciation (Note 10)	45,666	31,797
As restated	51,484	(3,518)
Income for the year	202,063	94,302
	253,547	90,784
Dividends paid on preference shares	39,300	39,300
Retained earnings, end of year	\$ 214,247	\$ 51,484

Consolidated Statement of Changes in Financial Position — Year Ended January 31

	1977	1976
		(Note 10)
Funds provided:		
Income (loss) before extraordinary item	\$ 62,063	\$ (6,198)
Depreciation and amortization	308,092	310,815
Gain on sale of property and equipment	(73,502)	—
Working capital provided from operations	296,653	304,617
Income tax reduction arising from utilization of prior years' losses	140,000	100,500
Proceeds from sale of property, equipment and other assets	161,196	47,720
Proceeds from first mortgage on real estate	—	475,000
Proceeds from disposition of treasury stock	5,018	7,732
Government of Canada grant for equipment purchases	—	3,561
	602,867	939,130
Funds used:		
Additions to equipment and other assets	278,852	116,921
Retirement of long-term debt	8,476	317,112
Dividends paid on preference shares	39,300	39,300
	326,628	473,333
Increase in working capital	276,239	465,797
Working capital, beginning of year	749,159	283,362
Working capital, end of year	\$1,025,398	\$ 749,159

See accompanying notes.

Notes to Consolidated Financial Statements — January 31, 1977

1. Summary of significant accounting policies:

Principles of consolidation:

These statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned.

Foreign exchange:

Amounts in foreign currencies have been translated substantially at rates existing at year end except for properties and equipment which are at rates prevailing on dates of acquisition.

Inventories:

Inventories are valued at the lower of cost and net realizable value.

The percentage of completion method of accruing profit on fixed price contracts in progress is used, with anticipated losses being provided for in full.

Property, plant and equipment:

These assets are carried at cost. Depreciation is provided on the straight-line basis at the rates shown in Note 3.

Other assets:

Commencing with the 1975 fiscal year, the excess of cost of subsidiary over book value on acquisition is being amortized on the straight-line method over 10 years. Patents and processes are being amortized on the straight-line method over 20 years.

2. Inventories:

	<u>1977</u>	<u>1976</u>
Raw materials	\$ 250,910	\$ 194,112
Work in process	640,102	446,150
Finished goods	183,266	338,077
	<u>\$1,074,278</u>	<u>\$ 978,339</u>

3. Property, plant and equipment:

	Rates of depreciation	<u>1977</u>	<u>1976</u>
Buildings	5%	\$ 557,052	\$ 561,404
Equipment	10% to 33⅓%	1,671,977	2,176,754
		2,229,029	2,738,158
Less accumulated depreciation		1,313,225	1,739,222
		915,804	998,936
Land		157,833	157,833
		<u>\$1,073,637</u>	<u>\$ 1,156,769</u>
Depreciation expense for year		<u>\$ 262,372</u>	<u>\$ 265,095</u>

4. Other assets:

	<u>1977</u>	<u>1976</u>
Patents and processes, at cost less amortization	\$ 65,997	\$ 66,080
Excess of cost of subsidiary over book value on acquisition less amortization	<u>235,083</u>	<u>268,802</u>
	<u>\$ 301,080</u>	<u>\$ 334,882</u>
Amortization for the year amounted to	<u>\$ 45,720</u>	<u>\$ 45,720</u>

5. Bank indebtedness:

The bank indebtedness is secured by a floating charge on all the assets of the company.

6. Long-term debt:

<i>Scintrex Limited:</i>	<u>1977</u>	<u>1976</u>
11¾% first mortgage payable, maturing September 1, 1980	\$ 470,227	\$ 473,874
<i>Scintrex Inc.:</i>		
7¾% mortgage payable, maturing March 31, 1984	<u>73,702</u>	<u>77,850</u>
	543,929	551,724
Less amounts due within one year	<u>10,328</u>	<u>9,647</u>
	<u>\$ 533,601</u>	<u>\$ 542,077</u>

In March 1977 the 7¾% mortgage payable was discharged as the related real estate in Buffalo was sold. (See Note 12).

The aggregate amount of principal payments required in each of the next four fiscal years is estimated as follows:

1978	\$ 10,328
1979	4,626
1980	5,186
1981	452,161

7. Capital stock:

Authorized:

350,000 6% cumulative, non-voting, convertible, preference shares, par value \$1 each
3,000,000 Common shares, no par value

	Preference		Common		Total Consideration
	No. of Shares	Par Value	No. of Shares	Consideration	
<i>Issued:</i>					
Outstanding at beginning of year	327,500	\$327,500	885,015	\$1,361,704	\$1,689,204
Common stock in treasury, at cost					
January 31, 1977			25,609	\$ 36,937	
January 31, 1976			29,070	\$ 41,955	

Preference shares:

The preference shares may be converted at any time by the holder or holders thereof into fully-paid common shares (as presently constituted) of the company on the basis of one common for two preference shares. Dividends on these 6% cumulative preference shares are payable semi-annually on the last days of July and January of each year. These shares are non-voting unless the company has failed to pay dividends for a period of two years. During the year the company paid \$39,300 being two years arrears of dividends. As of January 31, 1977 the last three semi-annual dividends aggregating \$29,475 are in arrears.

Employee stock option plan:

38,350 common shares remain under the company's revised 1971 Incentive Stock Option Plan. These options may be exercised in 1977 during the months of July, August and September at a price of \$0.80 per share.

8. Income taxes:

Income taxes payable for the year are in respect of profits earned by certain subsidiaries.

The company and other subsidiaries have losses in current and prior years amounting to \$272,000 which may be used to reduce taxable income in future years as follows:

\$ 22,000 to 1978
153,000 to 1980
42,000 to 1981
55,000 to 1982
<u>\$272,000</u>

9. Remuneration of directors and senior officers:

Total remuneration paid to directors and senior officers amounts to \$181,904 for the year (\$168,489 in 1976).

10. In accordance with the recent recommendation of the Canadian Institute of Chartered Accountants, government grants received for the acquisition of fixed assets should be deducted from the related fixed assets, and depreciation calculated on the net amount. This treatment has been applied retroactively to grants received in prior years and shown as Contributed Surplus.

This Contributed Surplus originally reported as \$145,239 as at January 31, 1976 has been eliminated as follows:

Repayment of portion of grant	\$ 24,489
Reduction of fixed assets	75,084
Reduction of deficit equal to prior years' accumulated depreciation	<u>45,666</u>
	<u>\$145,239</u>

The retained earnings as at January 31, 1976, previously reported as \$5,818 have been restated to show an increase of \$45,666. Of this amount, \$13,869 is applicable to the year ended January 31, 1976, and has been credited to depreciation for that year. The remaining \$31,797 is applicable to years prior to February 1, 1975 and has been credited to the deficit balance previously reported as \$35,315.

11. The 1976 comparative figures have been reclassified to conform with the current year's presentation.

12. Subsequent to the year end, the company disposed of its real estate in Buffalo. The estimated loss on disposition is \$15,000.

Auditors' Report

To the Shareholders of
Scintrex Limited.

We have examined the consolidated balance sheet of Scintrex Limited as at January 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated (see Note 10).

Toronto, Ontario
April 25, 1977

Laventhol & Horwath,
Chartered Accountants.

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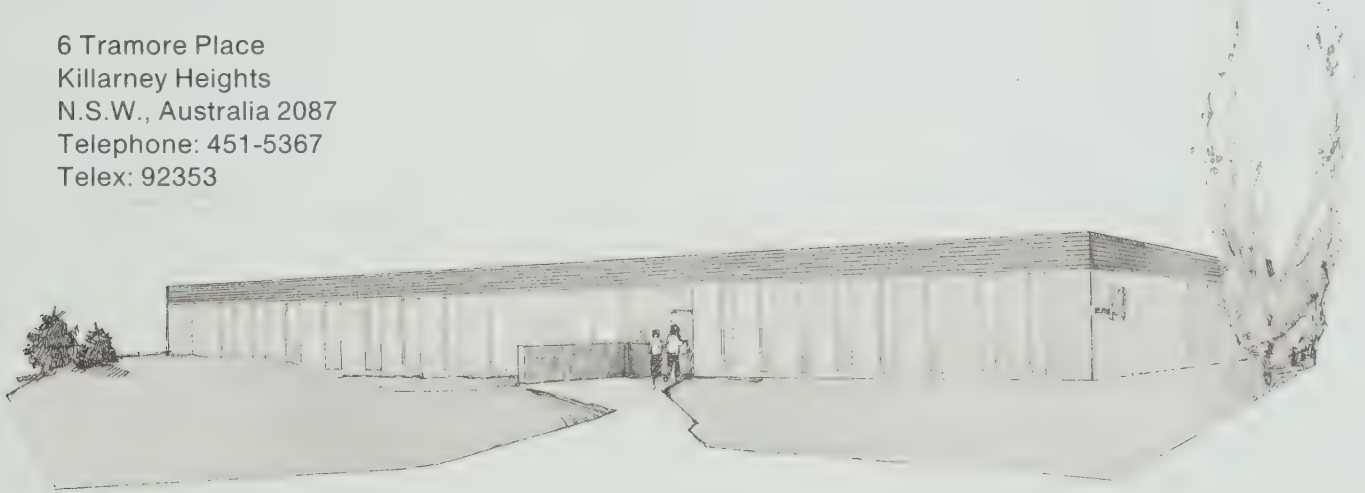
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Seigel Asociados, S.A. de C.V.

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Telex: 92353



Scintrex Concord Plant

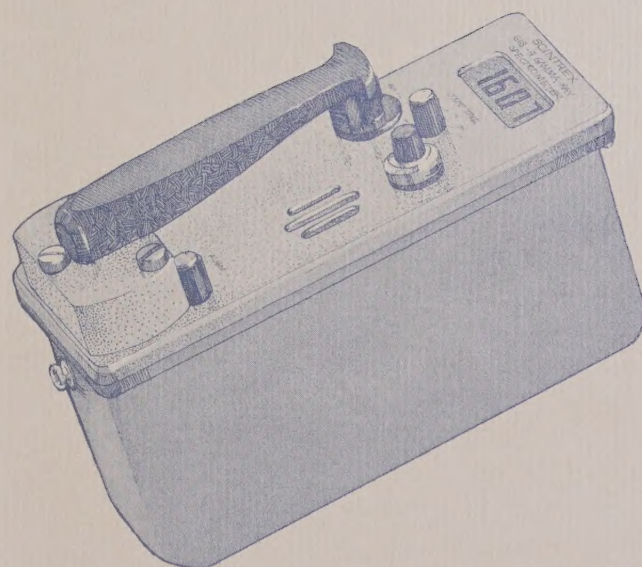
It is with great sorrow that we report the tragedy which struck Scintrex' subsidiary in South Africa. On March 29, 1977, an aircraft, on survey work on behalf of a client, crashed into a hillside, killing Mr. Paul (Bill) Bailey, manager of the Johannesburg office and his brother John, a geophysical operator. Bill was a senior member of our geophysical staff, well known and liked by all. He was a man of considerable energy and drive. Our condolences have gone out to their bereaved families. Bill and John will be sorely missed by all of us.



SCINTREX Limited
Consolidated Statement of Changes
in Financial Position
Six Months ended July 31, 1977
(unaudited)

	1977	1976
<i>Funds provided:</i>		
Income before extraordinary item	\$ 70,978	\$ 65,666
Depreciation and amortization	154,193	166,205
Loss on sale of property and equipment	2,202	—
Working capital provided from operations	227,373	231,871
Income tax reduction arising from utilization of prior years' losses	55,000	48,000
Proceeds from sale of property, equipment and other assets	196,542	25,852
	<u>478,915</u>	<u>305,723</u>
<i>Funds used:</i>		
Additions to equipment and other assets	232,133	127,606
Retirement of long-term debt	69,447	4,754
	<u>301,580</u>	<u>132,360</u>
Increase in working capital	177,335	173,363
Working capital, beginning of period	1,025,398	749,159
Working capital, end of period	<u>\$1,202,733</u>	<u>\$ 922,522</u>

SCINTREX
Interim Report



*For the Six Months
ended July 31, 1977*

Report to Shareholders

Scintrex' net income for the six months ended July 31, 1977, after utilizing prior years' tax losses of \$55,000, was \$126,000. This compares with a net income of \$114,000, after utilizing \$48,000 of tax losses, in the same period last year.

Sales totalled \$2,528,000 compared to \$2,544,000 for the first six months of the previous fiscal year. Geophysical instrument sales were 24% higher, but survey contracting continued at a low level. Deliveries of equipment to nuclear reactor customers were delayed due mainly to shortages of purchased components. A higher level of survey activity and a marked improvement in shipments of nuclear instruments are expected during the balance of the year.

Your company's working capital increased by \$177,000 to \$1,203,000, the highest level since mid 1970. Expenditures on production and research equipment as well as geophysical equipment for leasing amounted to \$232,000. Proceeds of the sale of Scintrex' vacant plant in Buffalo provided most of the funds required for this purpose.

Research and development expenses totalled \$323,000 after deducting government grants of \$56,000, an increase of \$112,000 (53%) over the same period last year. Demand for technically advanced instrumentation and an assured market warranted the increase in activity in this area.

With an order backlog continuing at the \$3 million level and all of Scintrex' domestic and foreign subsidiaries performing profitably, your management expects a further improvement in operating results during the second half of the year.

Harold O. Seigel, Ph.D., P.Eng.
President

September 23, 1977

SCINTREX Limited Consolidated Statement of Income Six Months ended July 31, 1977 (unaudited)

	1977	1976
Sales	\$2,527,855	\$2,544,210
Cost of sales including selling and administrative expenses	1,875,142	1,966,833
Research and development expenses	378,876	247,103
Depreciation and amortization	154,193	166,205
Interest on long-term debt	22,426	30,131
Other interest	15,133	36,728
Loss on disposal of property and equipment	2,202	—
	<u>2,447,972</u>	<u>2,447,000</u>
Less research and development grants	56,095	36,456
	<u>2,391,877</u>	<u>2,410,544</u>
Income before income taxes	135,978	133,666
Income taxes	<u>65,000</u>	<u>68,000</u>
Income before extraordinary item	70,978	65,666
Extraordinary item:		
Income tax reduction arising from utilization of prior years' losses	55,000	48,000
Net income	<u>\$ 125,978</u>	<u>\$ 113,666</u>
Number of common shares outstanding	859,406	855,945
Income per common share (after preference share dividend requirements of \$9,825):		
Income before extraordinary item	\$ 0.07	\$ 0.07
Net income	\$ 0.14	\$ 0.12